



Consumer Federation of America

July 11, 1996

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Ex Parte Meetings in CC Docket No. 96-98

Dear Mr. Caton:

Bradley Stillman and Mark Cooper of the Consumer Federation of America met with Lauren Belvin, James Casserly, Joseph Farrell, Elliott Maxwell, John Nakahata, and James Olson regarding implementation of local competition in the above referenced docket.

The attached two page ex-parte document was discussed and left with each of the staff members. Two copies of this letter and the attached document are enclosed for the record.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bradley Stillman', is written over the typed name.

Bradley Stillman
Telecommunications Policy Director

cc Lauren Belvin
James Casserly
Joseph Farrell
Elliott Maxwell
John Nakahata
James Olson

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A CONSUMER PERSPECTIVE ON THE TRANSITION TO COMPETITIONFEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**I. PRICING OF UNBUNDLED NETWORK ELEMENTS AT TSLRIC IS THE KEY TO COMPETITION****A. Pricing at TSLRIC is the Cornerstone of Competition**

1. Reduces barriers to entry
2. Sends the proper price signal to all participants in the market

B. A Precise Methodology and Guidelines are Necessary

1. Presumption, not pre-emption
2. State commissions apply methodology; where the rate exceeds the guideline, it is subject to complaint and FCC review

II. JOINT AND COMMON COSTS RECOVERED IN THE PRICE OF UNBUNDLED ELEMENTS MUST BE CAREFULLY CONTROLLED**A. Potentially Anti-competitive Effects**

1. Price squeeze
2. Guaranteed cost recovery/resources for predation

B. TSLRIC Can Include a Mark-up for Variable Overheads

1. Forward-looking, least-cost basic service only

C. Mark-ups Must not Be Anti-competitive

1. Fixed and pro rata
2. Price and revenue squeezes prevented

III. RATE INCREASES OR RATE REBALANCING ARE NOT NECESSARY TO PROMOTE COMPETITION**A. Differences between Embedded Costs and TSLRIC Should Not be Recovered in the Cost of Basic Service or Network Elements**

1. Embedded costs are bloated by excess profits, inefficiencies, strategic investments and misallocated costs

B. Access Charge Reform can be Implemented Later, in Conjunction with the Reform of Universal Service Mechanisms

1. Universal service proceedings will document costs and provide for legitimate subsidies
2. Network elements at TSLRIC with access charges unchanged in the interim shield the LECs from major changes in revenue streams
3. Access charges can be reduced eliminating excess profits and expanding the scope of charges

IV. LEGACY COSTS AND TRANSITION FUNDS MUST BE CAREFULLY ANALYZED AND CONTROLLED

A. Transition from Embedded Costs to TSLRIC Must Not Distort Input Prices

1. Until access charges are reformed, no need for a transition fund
2. Transition costs recovered over a short, fixed period of time
3. Transition funds should exclude excess profits, strategic investment and inefficiencies.

B. Competitively Neutral Collection and Distribution of Legacy Funds

1. All services should share the burden of the "legacy."

C. LECS Should Not be Allowed Entry into In-Region Long Distance while They are Drawing from a Legacy Fund

1. Use of same facilities to enter long distance
2. Asymmetric treatment of competitors

V. UNBUNDLING AND RESALE

A. LEC Efforts to Force Entrants to Buy the Biggest Pieces of the Network Must be Resisted

B. The Availability of Network Elements Should not be Limited or Conditioned

1. Broad definition of geographic market, not a subscriber-by-subscriber approach
2. Broad definition of network elements